SUPPORTING THE WARFIGHTER
THROUGH BUSINESS
TRANSFORMATION

Strategic Sourcing Initiatives Within DoD

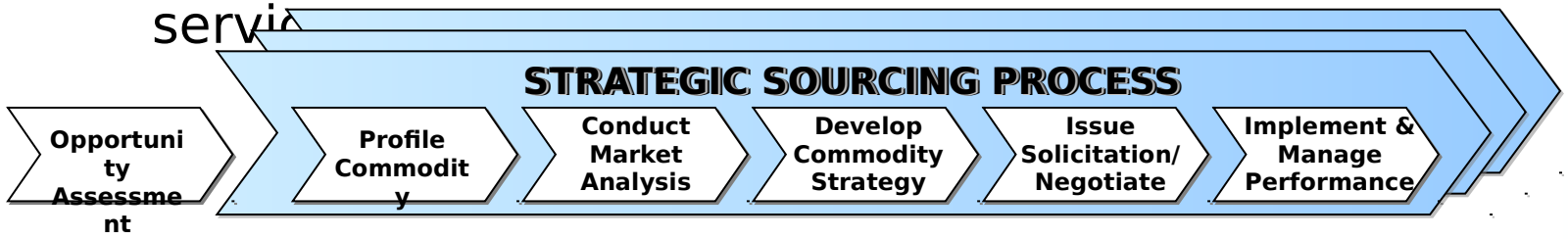
May 23-26, 2005

Agenda

- Opening/Introductions
- DoD-Wide Administrative/Clerical Support and Navy Strategic Sourcing Initiatives
- Air Force Strategic Sourcing Initiatives
- Army Strategic Sourcing Initiatives
- Questions and Answers

What is Strategic Sourcing?

The leveraging of an organization's buying power to obtain goods and services at better terms and conditions over the life cycle of those goods and servi



Systematic process that incorporates Enterprise Spend Analysis, Supplier Relations Development, Demand Management, and Stakeholder Requirements into the sourcing process

Strategic Sourcing transforms purchasing from a transaction-oriented process to a force driver for optimal quality and performance at more beneficial life-cycle costs

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DoD-Wide Strategic Sourcing and Navy Strategic Sourcing Initiatives

May 23-26, 2005

DWSS Program

Vision

To provide customers throughout the Department [of Defense with services acquired] in the most efficient and advantageous manner.

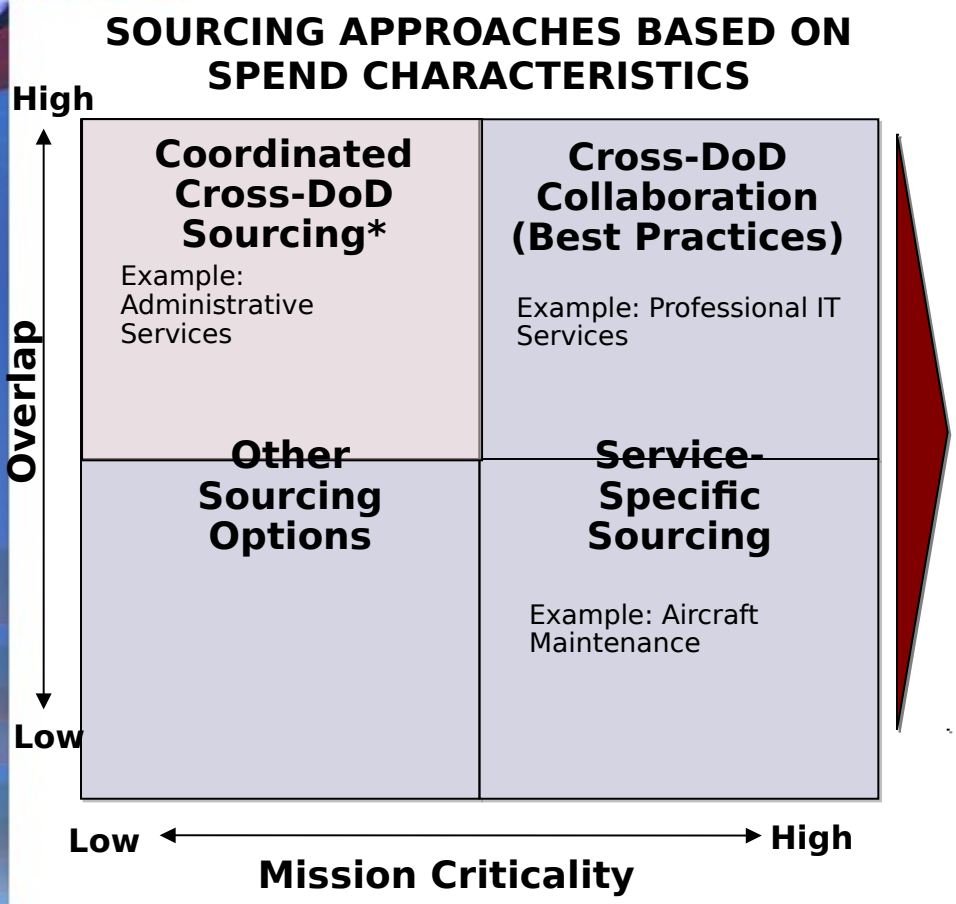
Memorandum from Paul Wolfowitz, Deputy Secretary of Defense, "Acquisition of Services Review" 2/6/2003

Program Objectives

- Reduction in Total Cost of Ownership
- Department-wide cross-functional acquisition strategies
- Improvements in meeting socio-economic goals
- Standardization of acquisition business process
- Improved skills of DoD acquisition community

Achieving DWSS objectives will require collaboration among the various DoD organizational components and senior level "buy in"

Common Commodity Selection Criteria



Primary Segmentation Criteria

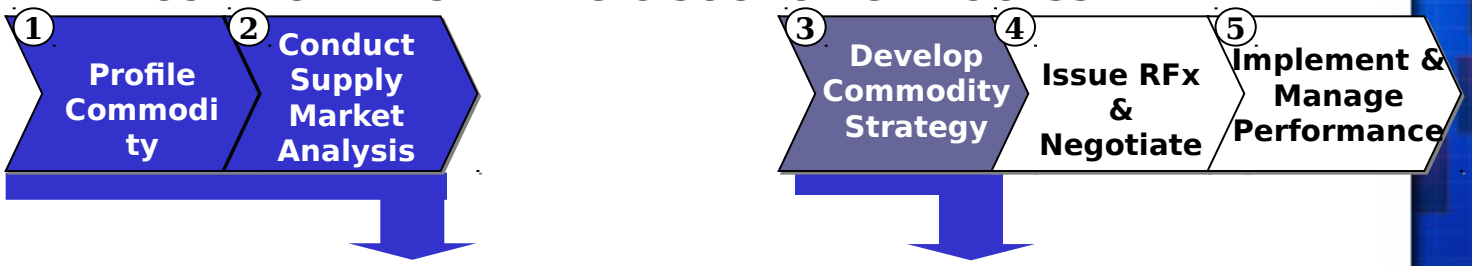
- **Coordinated Sourcing –** commodities that may provide the most significant opportunities through DoD-wide sourcing
- **Collaboration** – these commodities may provide significant opportunities for sharing knowledge and information across all services
- **Service-Specific** – these commodities may be unique to a service and thus sourced by that service
- **Other Options** – commodities that are neither mission critical nor have much overlap with other services could be contracted through GSA, for example

Other Possible Criteria

- **Spend Volume**
- **Requirements Compatibility**
- **Commodity Complexity**
- **Organizational Sensitivity**

Clerical Support Sourcing Strategy is based on comprehensive internal and external (market)

COMMODITY STRATEGIC SOURCING PROCESS



SUMMARY OF ANALYSES PERFORMED

1. Baseline Analysis
- Overview of Commodity (definition, usage, stakeholders, mission criticality, etc.)
- Spend Summary Existing Sourcing Strategy and Initiatives
- Existing Contracts Analysis
- Existing Sourcing Strategy & Initiatives
- Business Process and Policy
- Total Cost of Ownership

2. Commodity Requirements
- Customer Needs Analysis/Requirements
- Socio-Economic Requirements
- Regulatory and Process Related Requirements
- Estimated Volume Requirements

3. Market Analysis Findings and Opportunities
- Market overview (segments, size)
- Key trends
- Small Business Capabilities
- Comparison of market capabilities to requirements
- Potential Sourcing Levers

COMMODITY STRATEGY

I. Commodity Goals and Objectives (Includes scope, usage, mission criticality)

II. Business Need/Case for Change

A. Requirements

B. “As Is” Environment (sourcing strategy, process, technology)

C. “To Be” Environment (sourcing strategy, process, technology)

D. Benefits

III. Commodity Sourcing Strategy (strategy and tactics)

IV. Business Case

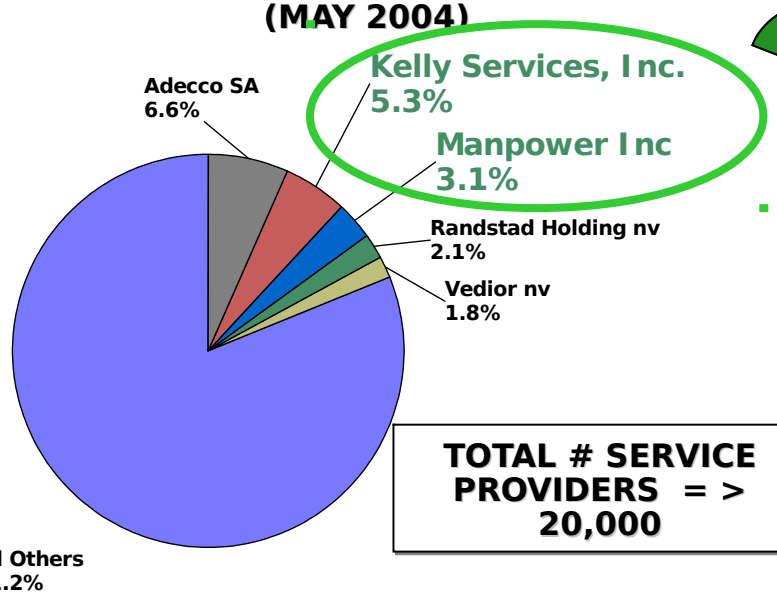
V. Acquisition Strategy

VI. Implementation Plan

Temporary Service Cost Drivers

KELLY AND MANPOWER, AMONG THE LARGEST PLAYERS IN THE US MARKET, …

CONTRACT LABOR SERVICES US REVENUE SHARE (MAY 2004)

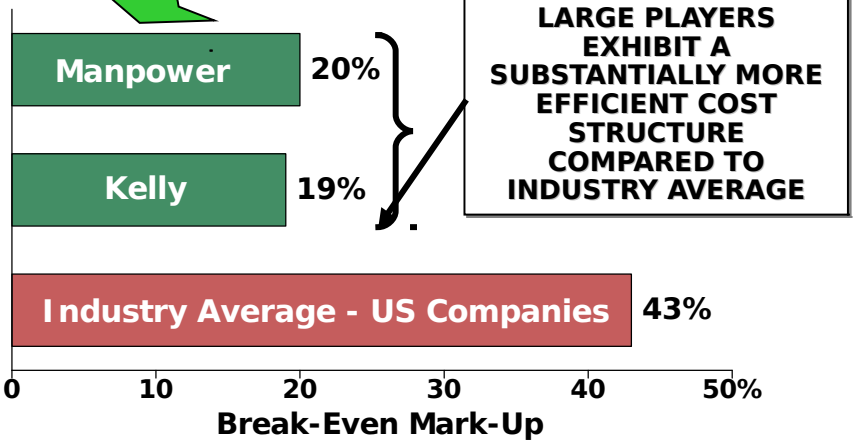


TOTAL # SERVICE PROVIDERS = > 20,000

Source: IBIS, Temporary Help Services in the US, May 2004

… EXHIBIT A BREAK-EVEN MARK-UP OF APPROXIMATELY 20%, SUBSTANTIALLY LOWER THAN THE INDUSTRY AVERAGE

COMPARISON OF BREAK-EVEN MARK-UPS INDUSTRY AVERAGE VS LARGEST US PLAYERS (2004)

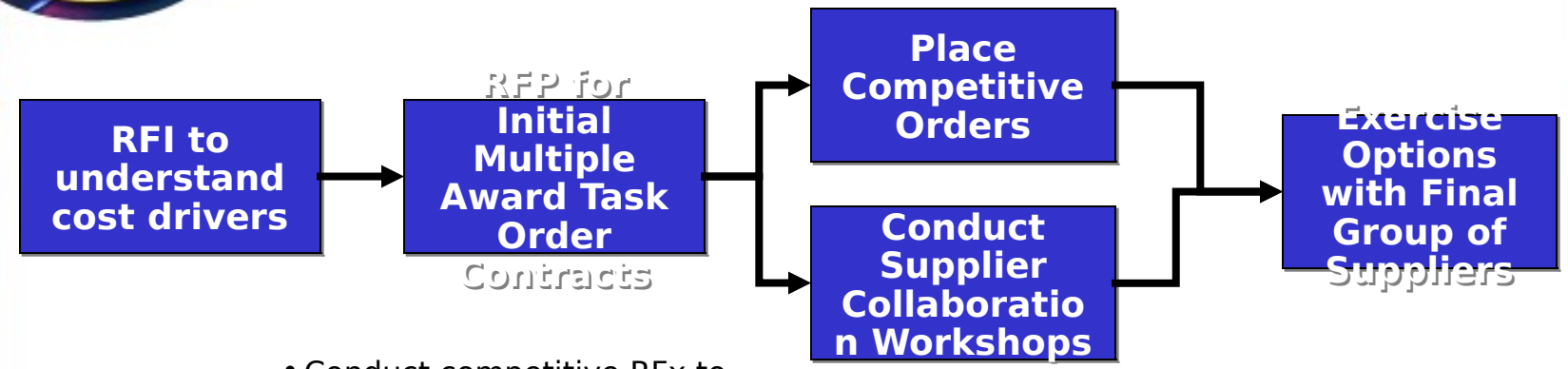


LARGE PLAYERS EXHIBIT A SUBSTANTIALLY MORE EFFICIENT COST STRUCTURE COMPARED TO INDUSTRY AVERAGE

Source: CSFB, Global Services, March 2004; CIBC, Manpower Equity Research, April 2004, Censeo analysis

Do our incumbents have favorable cost structure to meet our requirements with high levels of service at comparably lower prices/ mark-ups?

Acquisition Strategy


RFI to understand cost drivers
RFP for Initial Multiple Award Task Order Contracts
Place Competitive Orders
Conduct Supplier Collaboration Workshops
Exercise Options with Final Group of Suppliers

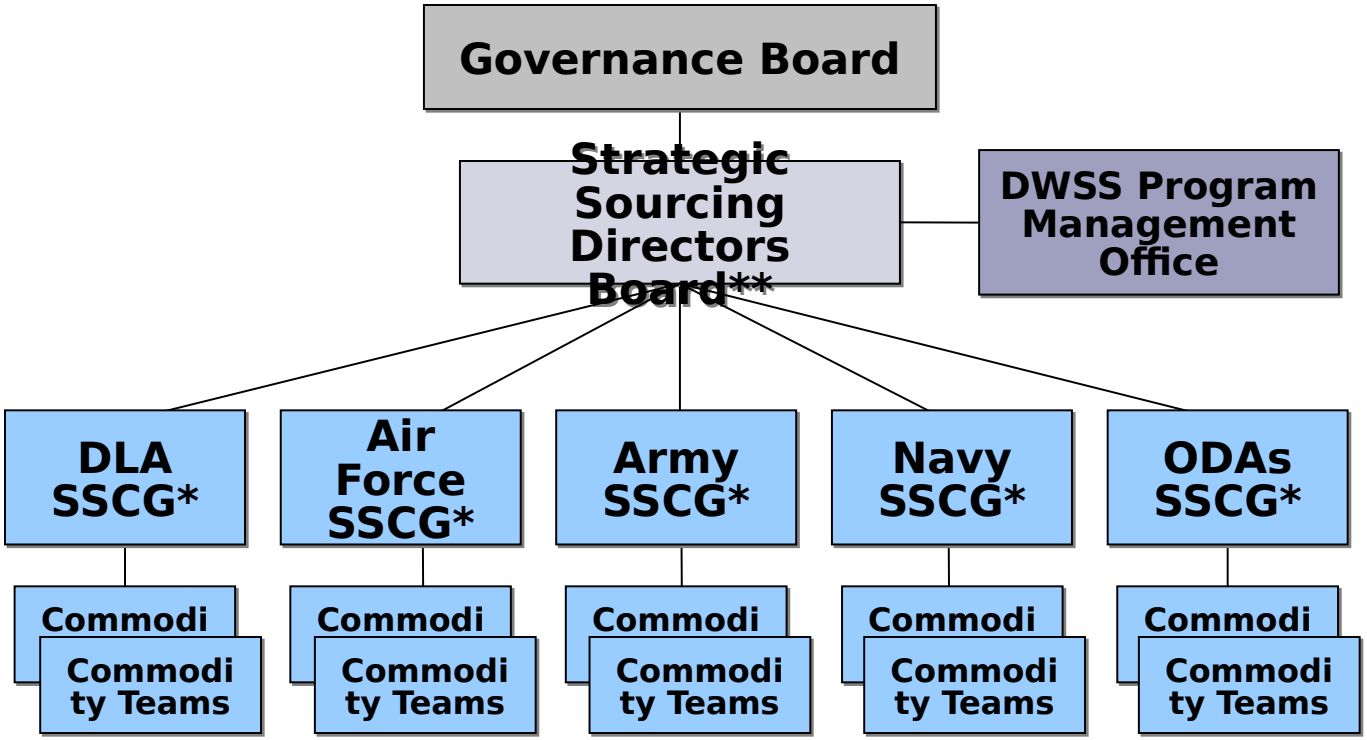
OVERALL OBJECTIVE(S)

- Conduct competitive RFx to down select to initial supply group comprised of incumbent and new small businesses
- Work collaboratively with suppliers to drive down costs of working together
- Further consolidate spend to "preferred suppliers" and implement policy enforcements

- **Achieves/exceeds socio-economic goals**
- **Ensures best value for DoD**
- **Creates a collaborative approach to working with supply community – enhances capabilities of small businesses**

DWSS Governance Structure

"EXECUTIVE AGENT" MODEL



* SSCG – Strategic Sourcing Coordination Group

** Directors Board consists of SSCGs

Other Enterprise-Wide Teams

- DoD (DUSD [L&MR])
  - Microelectronics
  - Bearings
- DON
  - Cell Phones
  - Office Supplies
  - Office Furniture

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Air Force Strategic Sourcing Initiatives

May 23-26, 2005

Air Force: Overview of SS/CC Initiatives

- AFMC's Purchasing and Supply Chain Management (PSCM) and Depot Maintenance transformation
  - Developing centralized commodity-focused sourcing and collaborative relationships with customers and strategic suppliers
  - Building an enterprise-wide program to standardize processes, technologies, organization structures, and skills that support the AF's three Air Logistic Centers
- Information Technology CC (ITCC)
- Medical Services CC (MSCC)
  - AP approved in Dec04 to acquire all required clinical support services ($900M value over 5 years; est. award in Oct05)

Air Force: AFMC's PSCM Initiative

8 Commodity Councils stood up (92% of sustainment spend)

- 150+ completed initial CC training (including USTRANSCOM, Marines, Navy, DLA)

Workforce Development Strategy

- Initially briefed 3000+ of AFMC Workforce; Starting Oct05, to train 3500 with a 9-week immersion course
- Balance Scorecard as a governance tool

Strategic Supplier Relationships

- Established Focal Points with 21 Strategic Suppliers--Initial Meetings conducted with 14 Suppliers
- Supplier Scorecard defined - will be reviewed at Sep 05 Executive Supplier Summit

Customer Relationship Management - Focus on needs of the weapon systems managers

Success Stories

- Ogden reduced cycle time from 160+ days to 20 days for 65% of all Purchase Requests
- Support Equipment CC Identified Reduction of 190 Oscilloscope NSNs to 3 Common Configurations
- Aircraft Accessories CC Identified Reduction of 286 Contracts to 5 Strategic Contracts
- Landing Gear CC Will Reduce ALT by 85% by deploying 1034 NSNs to Strategic Contracts
- Landing Gear CC has Designed a Strategic Logistics Integration Concept (SLIC) Which Enables a 25% Decrease in Acquisition Lead Time While Actively Engaging the Small Business Community

Air Force: PSCM Training Initiative

- **What: Capability Training**
- **Audience: 3500 MSD funded employees (approx)**
- **Where: each ALC and HQ AFMC**
- **When: FY06 – FY09**
- **Schedule: e.g. 3 concurrent classes of 25 people at 3 ALCs per session – HQ class offered quarterly (FY06 only)**
- **Length: 9 week sessions**
- **How: 230-250 total people per session backfilled from over hires**
- **Who Conducts: professional**

Core Capabilities

You and the Air Force Mission

Logistics in the 21st Century/ELog21/PSCM Overview

Process Improvement Overview

Change Management Basics

Analysis Techniques

Fundamentals of Relationship Mgmt

Focus on the Customer

Problem Solving/Decision Making I

Metrics and the Balanced Score Card

Understanding Financial Management

Data as a Strategic Resource

Supply Dimension

Supply Chain and the System

Root Cause Analysis

Inventory Analysis

Forecasting / Demand Planning

Market Research

Contracting for Supply

SRM

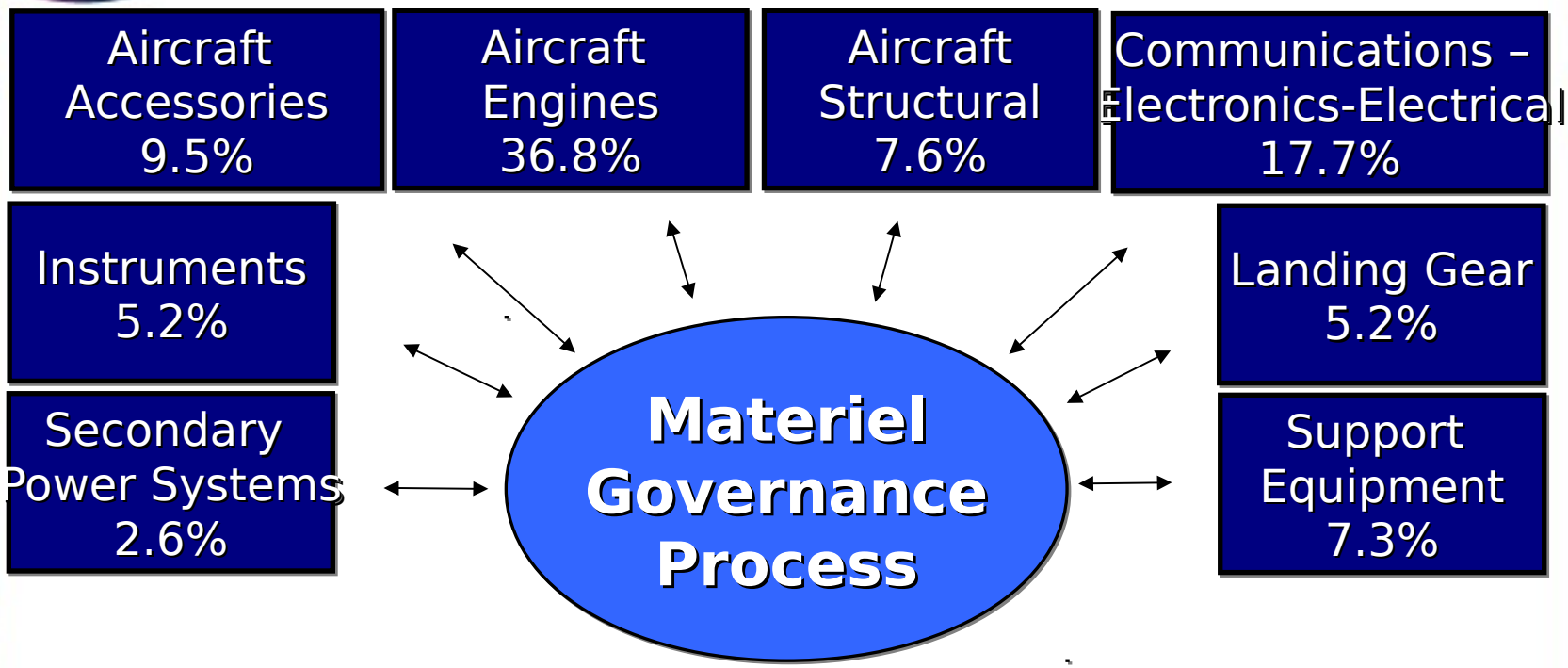
Commodity Sourcing/PBL/Strategic Courses

CRM

Maintenance for Supply

Case Study

Air Force: AFMC's PSCM CCs



8 CCs account for 91.9% of Total Spend
3 ALCs: 3349 ktrs, 26824 NSNs, 23,945K actions, $10B spend

Air Force: ALC Bearings Analysis

247,531	Avg. Annual Qty
$25.6M	Avg. Annual Cost
1037	Contract Actions
339	Contracts
242	Suppliers/Distributors
5	Total Bearing Manufacturers

Are 5 suppliers the best solution? Not likely -- we must balance SB goals with the desire to leverage spend

Air Force: ITCC Initiatives

Desktops/Laptops:

- 4th Qtr FY03 – 1st Qtr FY05: 84,787 units purchased, $72M spent, $17M costs avoided
- Reduced desktop/laptop configurations from >1000 to 4
- Configurations updated quarterly to reflect technology changes
- Implemented a repeatable enterprise-wide “bulk buy” approach using quantity price breaks and online “e-buying”
- Overall 8.4% awarded to Small Business (as of Apr05)

Enterprise-wide Microsoft agreements (Nov 04)

- Consolidated 38 previously decentralized software contracts and nine support contracts into two mandatory agreements
- Expected to save more than $100 million during a six-year period

Network Centric Solutions (NETCENTS) (8 contracts)

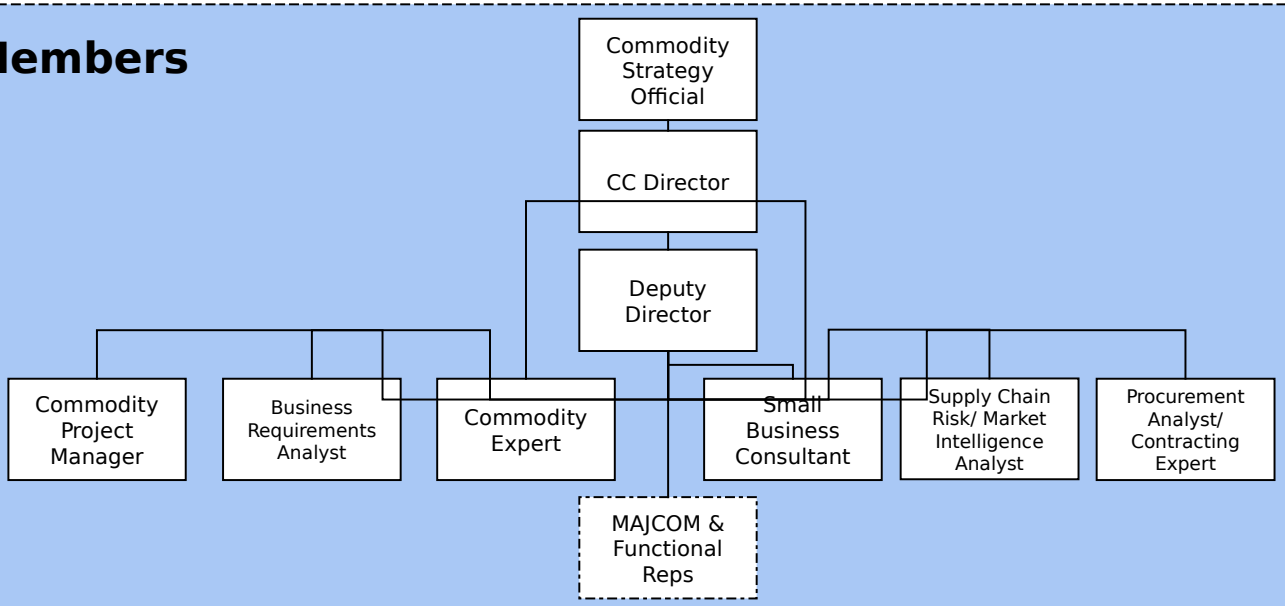
- Broadly scoped contracts for acquiring voice/video/data communications hardware/software and system engineering, installation, and integration for networking, telephony, and security solutions ($9B ceiling): https://web1ssg.gunter.af.mil/aq/netcents

New commodity areas under review:

- Wireless Devices (e.g., cell phones and blackberries)
- Digital Printing and Imaging
- Software Asset Management

Air Force: Notional CC Structure

Core Members



Advisors

- Industry Consultant
- Standards & Architecture Experts
- Policy Expert
- Business Process Analyst
- Economic Analyst
- Legal Advisor (JAG)
- Financial Analyst
- Training Expert
- Org Change Manager

Stakeholders

- MAJCOM Leadership
- Functional Leadership

Air Force: SS/CC/Transformation Guidance

- **SAF/AQC Policy - AFFARS 5307.104-93 and additional IG5307.104-93 in Part 7 of the "Library"**
  - https://www.safaq.hq.af.mil/contracting/public/
  - https://www.safaq.hq.af.mil/contracting/restricted/index.cfm
- **AF Policy Directive (AFPD) 63-18**
  - In staffing for SECAF signature
- **General "Contracting Transformation" information**
  - https://www.safaq.hq.af.mil/contracting/restricted/index.cfm
- **General "AF ELog21 -- Transforming to generate 'Agile Combat Support'" information**
  - https://www.il.hq.af.mil/ili/ilid/index.cfm?osymbol=ilid

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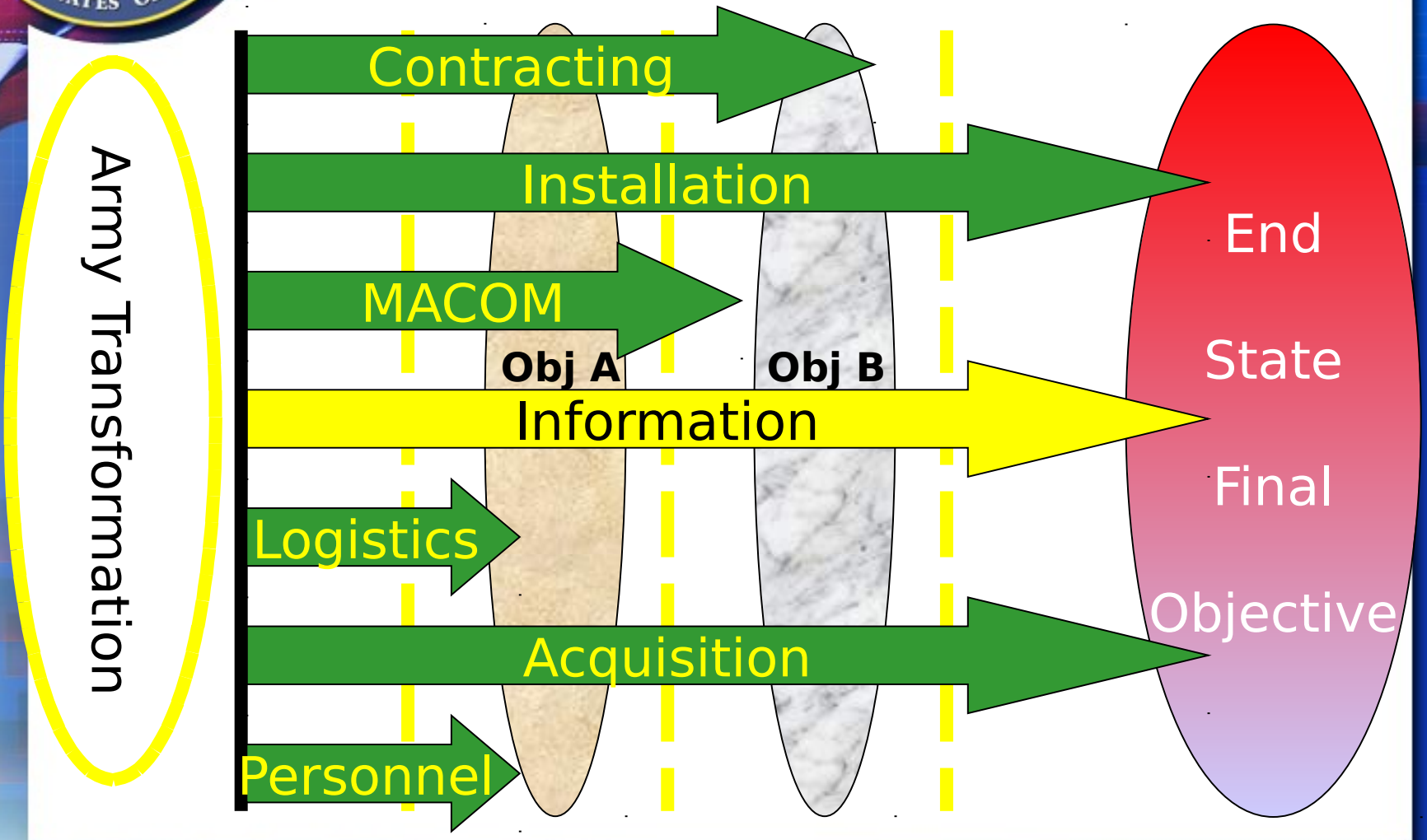
Army Strategic Sourcing Initiatives

May 23-26, 2005

Army Strategic Sourcing Initiatives

- Organizational Foundation in Place
  - RTF
  - Current Army Transformation
- IT/Army Network Management
- Logistics
  - Organizational Equipment Reset
- Installation Services
  - Spend Analysis

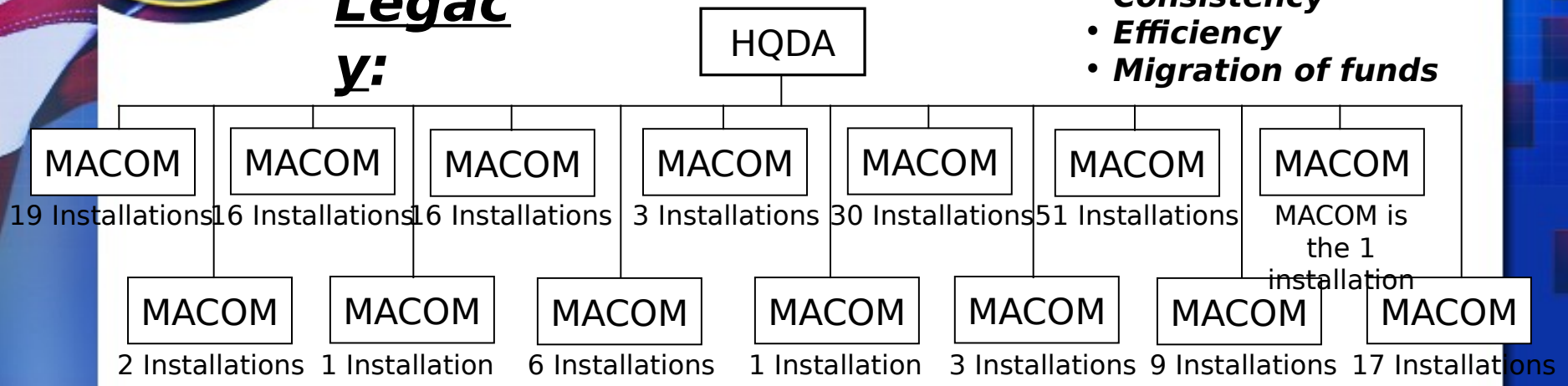
Army Transformation – RTF 2002



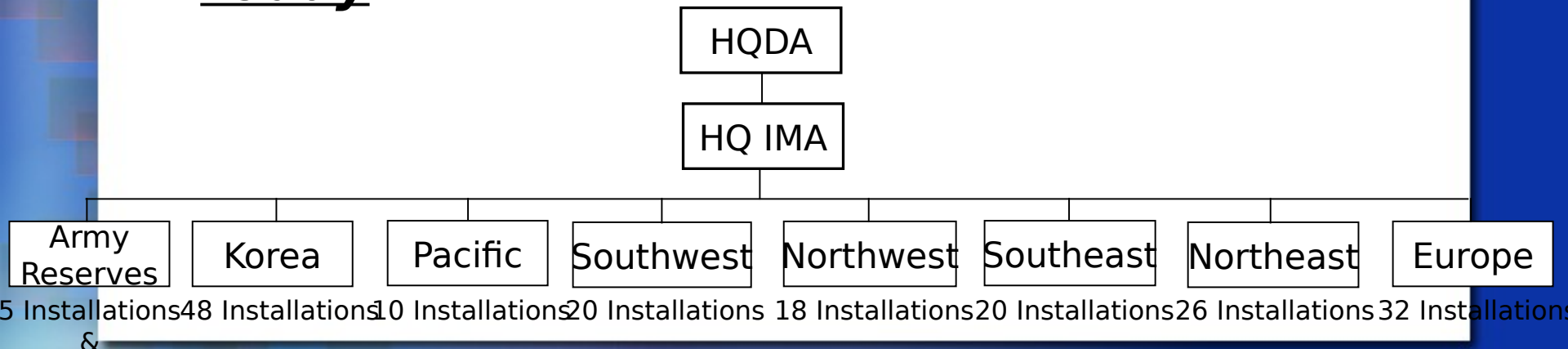
Installation Management

- ***Corporate Structure***
- ***Consistency***
- ***Efficiency***
- ***Migration of funds***

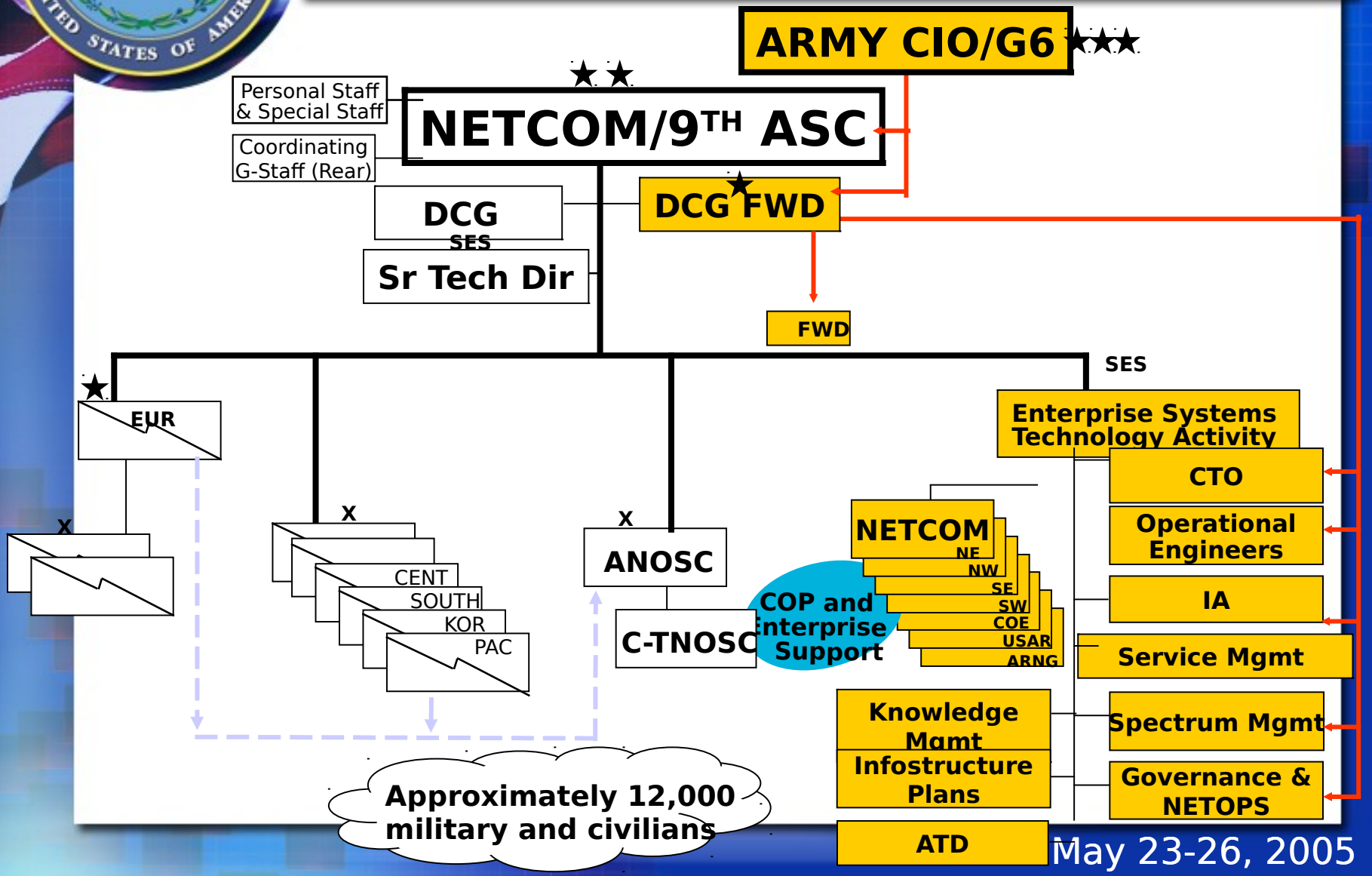
Legacy:



Today:



NETCOM Command Structure



Army Contracting Agency

ITEC4
NCR/
FT
Huachuca

HQ,
Northern Region
Fort Monroe

Northern Centers
Fort Eustis/Fort Belvoir

DOCs

Carlisle Bks	FT Myer
FT McCoy	FT AP Hill
FT Lee	FT Meade
FT Drum	FT Hamilton
FT Riley	FT McNair
FT Lewis	FT Leonard Wood
FT Carson	FT Dix
FT Belvoir	Dugway Pr. Gnd.
FT Leavenworth	Adelphi Lab Ctr.
FT Monmouth	Rock Island Ars.
Detroit Ars.	Natick R&D Ctr.

HQ,
Southern Region
Fort McPherson

Southern Center
Fort McPherson

DOCs

FT Bragg	FT Bliss
FT Jackson	Redstone Ar
FT Gordon	FT Irwin
FT Stewart	Presidio of Monterey
FT Benning	FT Polk
FT Rucker	FT Hood
FT Campbell	FT Sill
FT Knox	
Yuma Pr. Gnd.	
White Sands	
FT Sam Houston	

OCONUS
3rd, 8th, USAREUR
USARSO
USARPAC

OCONUS
Centers

DOCs

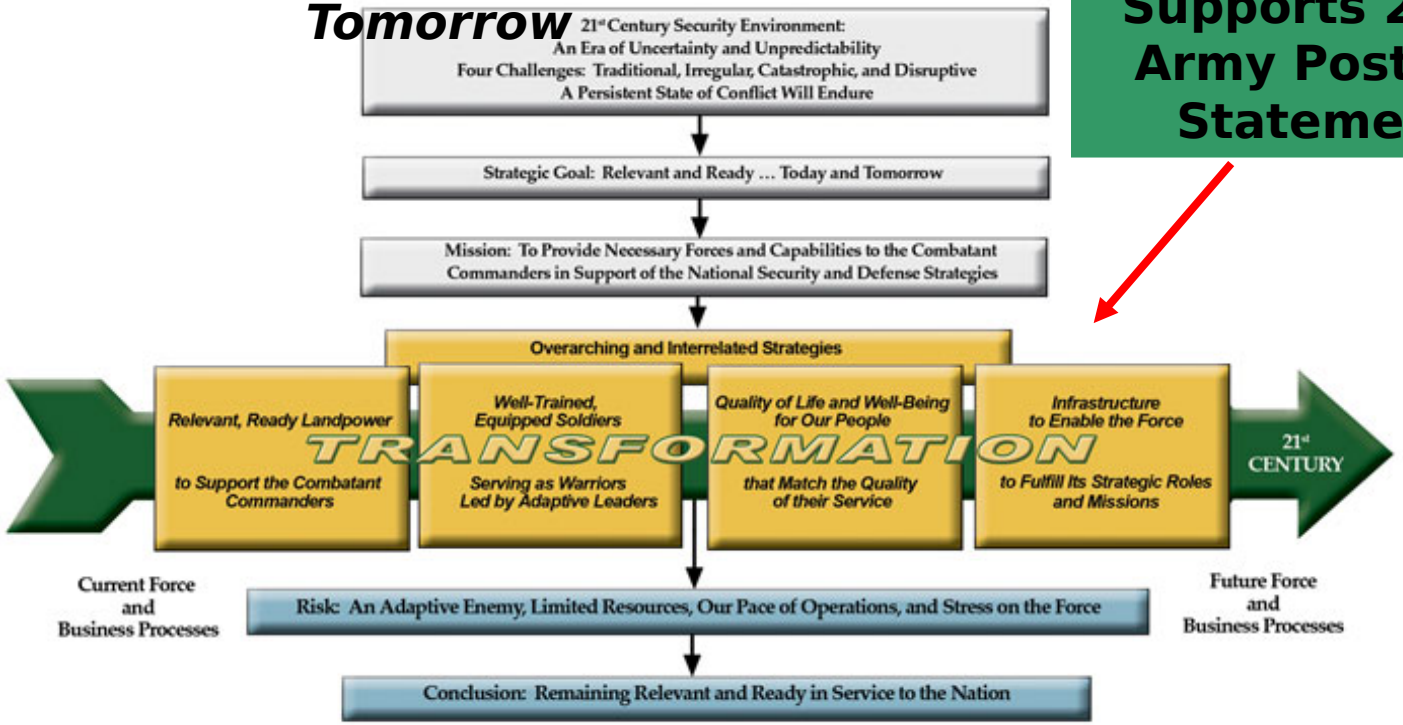
- 3rd Army
- USAREUR
- 8th Army
- USARPAC
- USARSO

Army Contracting Study

Supports Army's Overarching Strategic Goal:

Relevant and Ready … Today and Tomorrow

Supports 2005 Army Posture Statement


21st Century Security Environment:
An Era of Uncertainty and Unpredictability
Four Challenges: Traditional, Irregular, Catastrophic, and Disruptive
A Persistent State of Conflict Will Endure
Strategic Goal: Relevant and Ready … Today and Tomorrow
Mission: To Provide Necessary Forces and Capabilities to the Combatant Commanders in Support of the National Security and Defense Strategies
Overarching and Interrelated Strategies
Relevant, Ready Landpower
to Support the Combatant Commanders
Well-Trained, Equipped Soldiers
Serving as Warriors Led by Adaptive Leaders
Quality of Life and Well-Being for Our People
that Match the Quality of their Service
Infrastructure to Enable the Force
to Fulfill Its Strategic Roles and Missions
TRANSFORMATION
21st CENTURY
Current Force and Business Processes
Risk: An Adaptive Enemy, Limited Resources, Our Pace of Operations, and Stress on the Force
Future Force and Business Processes
Conclusion: Remaining Relevant and Ready in Service to the Nation

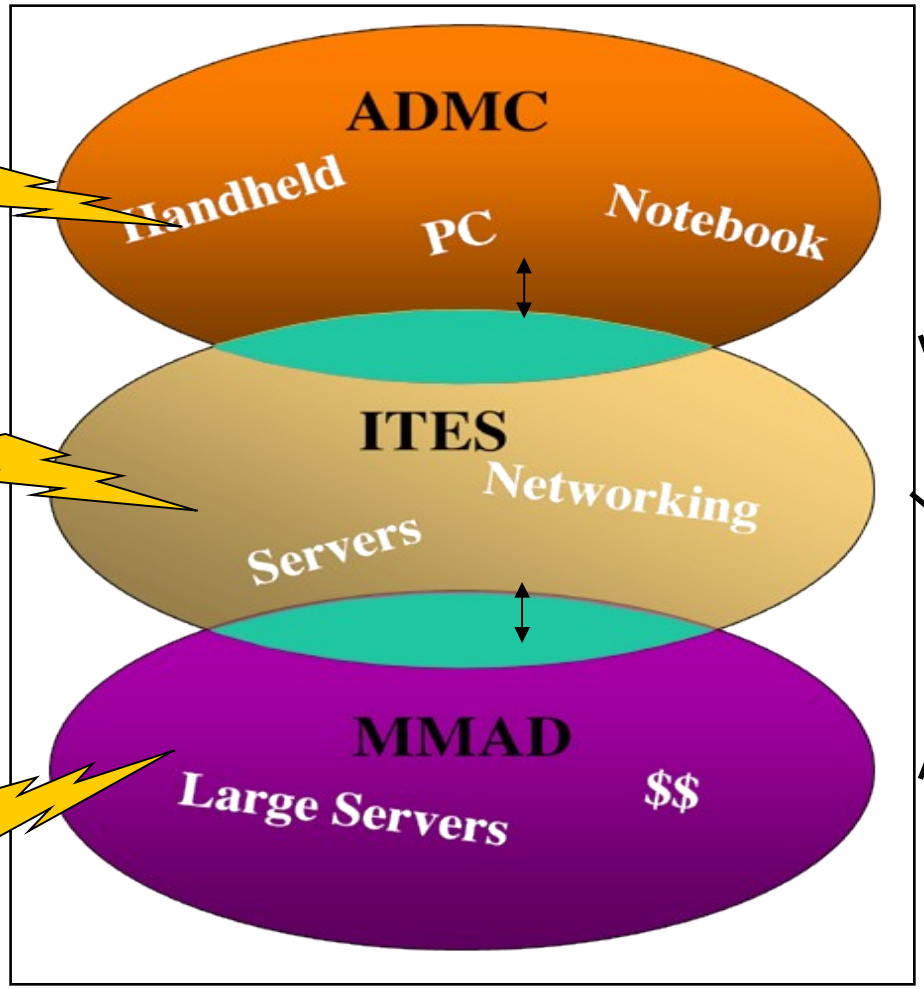
"Our Army at War – Relevant and Ready…Today and Tomorrow"

IT Solution Suites: Use Alone or Together

Commodity

Integration

Performance



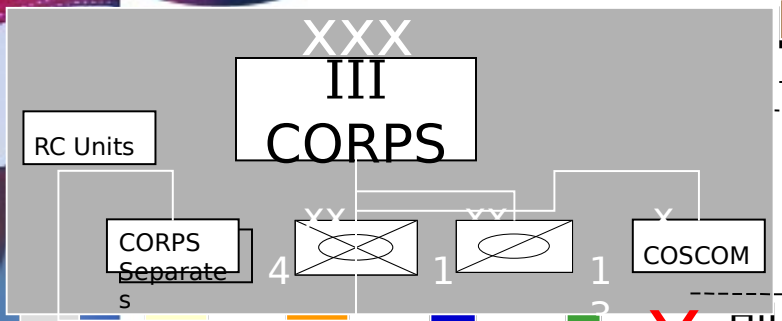
DOD

Enterprise

Software

Agreements

Who Does the Maintenance Contracting?



AMC

AMC / TACOM
PEO'S / PMs

AMC Acquisition Centers ($136.4 M)

ACA – Fort Hood ($6.4 M)

HILL AFB
(Locally Contracted Generator Reconstitution)

ACA - Ft. Hood ($2.8 M)

GSA

UNKNOWN

Locally Contracted Support

FCMF

USAF ($40M)

DOL (Ft. Hood)

ACA - Ft. Hood ($20.1 M)

~ $205.7 M in Maintenance Contracting $ at Fort Hood in FY 04

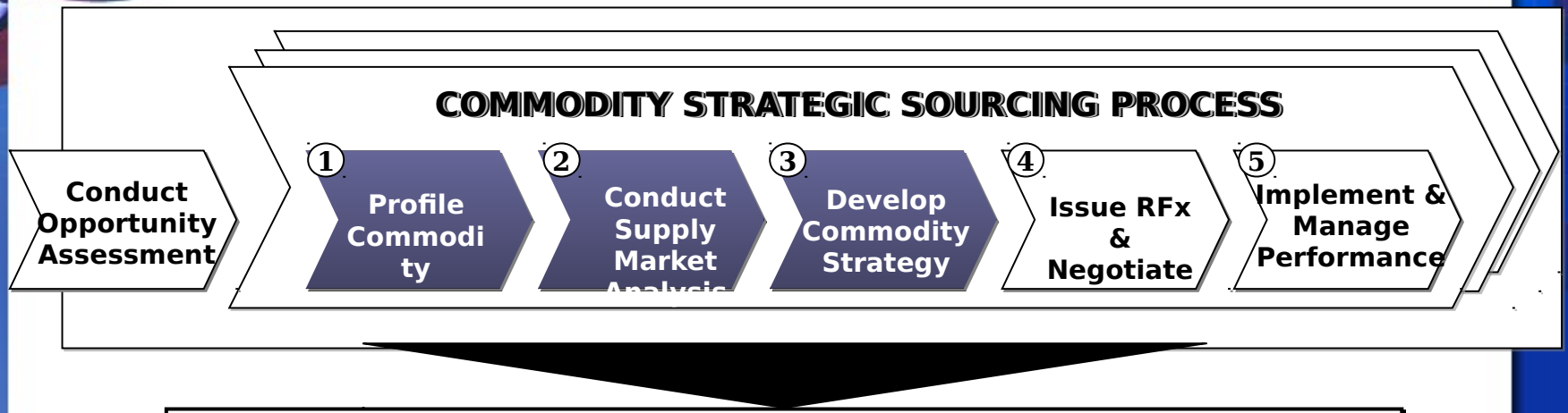
14% thru ACA 66% thru AMC

Army Strategic Sourcing Initiatives

- Installation Spend Analysis
  - Focus on recurring requirements
    - Better/Faster/Cheaper
  - Recurring Requirements
    - Managed by same activity
    - Not managed by same activity

DoD Wireless Pilot–Unique Aspects

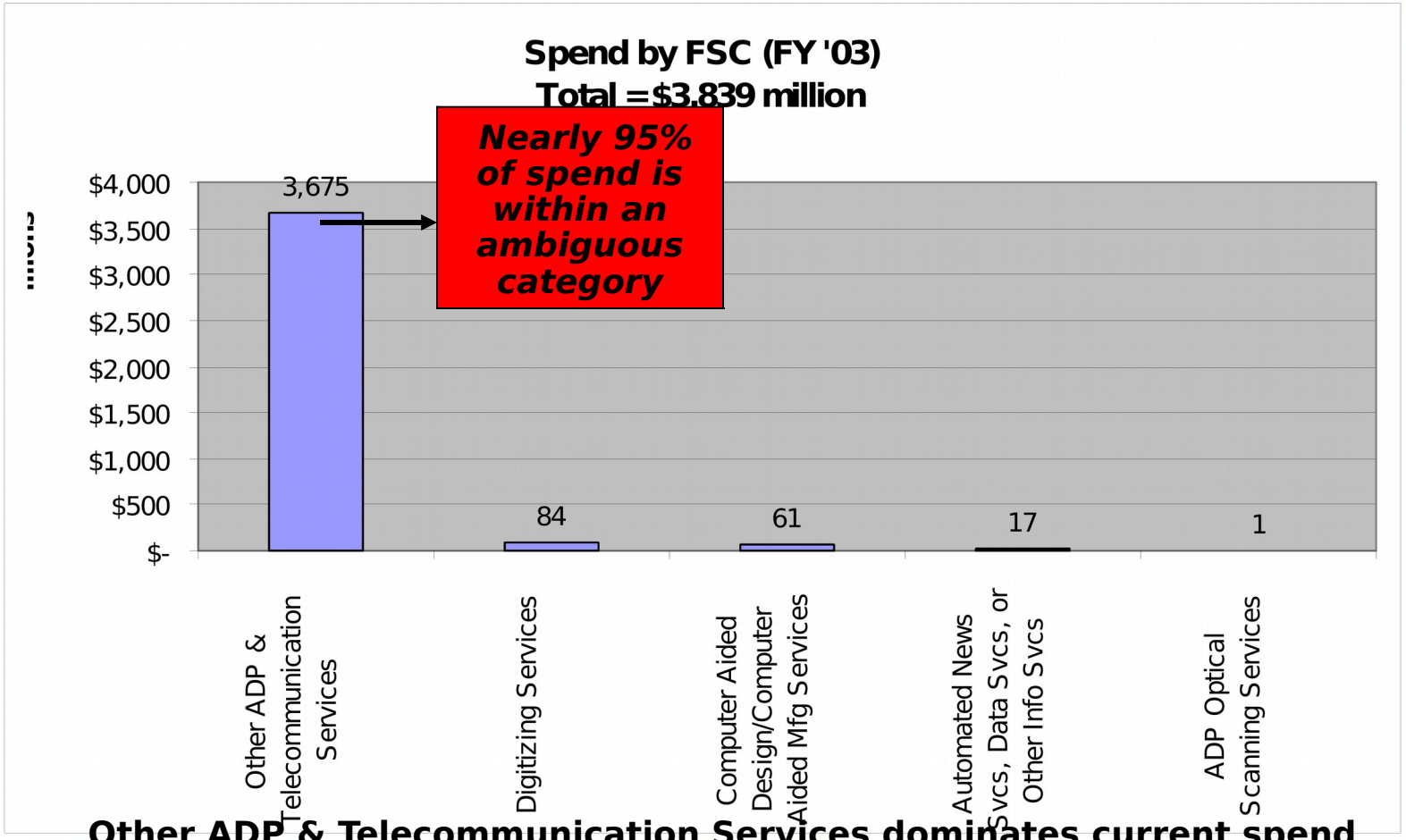
OVERALL STRATEGIC SOURCING PROCESS



Cell phones, pagers, email devices, and related services

- **Develop a detailed understanding of the wireless services spend through spend analysis, contracts and usage analysis, commodity requirements identification and process analysis**
- **Develop an internal fact base for identifying sourcing opportunities which will be explored further in the subsequent steps of the Commodity Strategic Sourcing process**

Total Misc/General IT Spend in 5 FSCs



Other ADP & Telecommunication Services dominates current spend

DoD-wide Wireless Spend

Based on the team's analysis, DoD-wide Wireless Services spend is estimated to be ~ $198m